

Message Text

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ORIGIN EB-07

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FM SECSTATE WASHDC
TO AMEMBASSY LISBON
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY STOCKHOLM
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AMEMBASSY BERN
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E.O. 11652:
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TAGS: EFIN, PO

SUBJECT: FINANCIAL ASSISTANCE FOR PORTUGAL

REF: US OECD 6679

1. SUMMARY: FIRST MEETING OF POTENTIAL PARTICIPANTS
IN AN EFFORT TO RELIEVE PORTUGAL'S BALANCE OF PAYMENTS
PROBLEM ACHIEVED BROAD AGREEMENT ON SIZE OF NEED
(SDR 1 BILLION OVER THE NEXT 18 MONTHS) AND DESIRABLE REMEDY

(A SET OF COORDINATED, MEDIUM-TERM BALANCE OF PAYMENTS LOANS, WITH DISBURSEMENTS LINKED TO PROGRESS IN GOP-IMF NEGOTIATIONS). MOST PARTICIPANTS, HOWEVER, ARE ONLY NOW AT THE POINT WHERE THEIR GOVERNMENTS CAN DECIDE ON PARTICIPATION AND THE AMOUNT OF THEIR POSSIBLE LOAN. ONE MORE MEETING, WHICH THE U.S. WILL AGAIN CHAIR, WAS SET FOR LATE JUNE TO GIVE THESE COUNTRIES A TARGET FOR THEIR DECISION-MAKING AND TO GIVE THOSE ALREADY PREPARED TO PARTICIPATE (U.S. FRG, NORWAY) THE NECESSARY ASSURANCE OF BROAD PARTICIPATION BY OTHERS. BETWEEN NOW AND LATE JUNE, THEREFORE, EMBASSY FOLLOW-UP WILL BE NEEDED TO PROMOTE POSITIVE DECISIONS BY HOST COUNTRIES CONSIDERING BALANCE OF PAYMENTS LOANS TO PORTUGAL -- STARTING WITH APPROACH REQUESTED AT THE END OF THIS CABLE. END SUMMARY.

2. FIRST INFORMAL MEETING MAY 16 IN PARIS OF COUNTRIES CONCERNED WITH PORTUGAL'S BALANCE OF PAYMENTS FINANCING PROBLEM ACHIEVED, IN OUR VIEW, THE TWO OBJECTIVES THE U.S. CITED AT THE OUTSET OF THAT MEETING: 1) TO REACH A COMMON APPRECIATION OF THE DIMENSION AND NATURE OF PORTUGAL'S NEEDS AND PORTUGAL'S EFFORTS TO DATE IN CONJUNCTION WITH THE IMF TO DEAL WITH THOSE NEEDS, AND 2) A COMMON FRAMEWORK FOR CONSIDERING HOW ADDITIONAL BALANCE OF PAYMENTS HELP FROM CONCERNED COUNTRIES CAN BEST COMPLEMENT AND SUPPORT GOP/IMF EFFORTS.

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3. VIRTUALLY ALL COUNTRIES EXPRESSED STRONG POLITICAL SUPPORT FOR PORTUGAL'S EFFORTS TO CONSOLIDATE ITS YOUNG DEMOCRACY AND APPRECIATION OF THE LINK BETWEEN THE PROSPECTS FOR THESE EFFORTS AND PORTUGAL'S BALANCE OF PAYMENTS NEEDS.

4. THE IMF STAFF PRESENTED NEW ESTIMATES FOR PORTUGAL'S BALANCE OF PAYMENTS WHICH INDICATED AN OVERALL DEFICIT FOR THE REST OF 1977 AND 1978 OF ESTIMATED SDR 1 BILLION (\$1.15 BILLION). THIS ESTIMATE PRESUMES ROLL-OVER OF ALL CENTRAL BANK LOANS AND CONTINUED PORTUGUESE ECONOMIC POLICY ACTIONS IN THE CONTEXT OF A NEW IMF PROGRAM (SECOND CREDIT TRANCH STAND-BY ARRANGEMENT) FOR 1978. THIS WAS GENERALLY ACCEPTED AS A REASONABLE ESTIMATE OF PORTUGAL'S NEED. IT WAS ALSO ACCEPTED THAT THE LION'S SHARE OF THIS AMOUNT WOULD HAVE TO COME FROM SPECIAL BALANCE OF PAYMENTS LOANS WITH MEDIUM-TERM MATURITY.

5. THE U.S. SUGGESTION OF A COORDINATED SET OF BILATERAL BALANCE OF PAYMENTS LOANS WAS BROADLY ENDORSED AS THE BEST FRAMEWORK FOR PROCEEDING. IT WAS GENERALLY ACCEPTED THAT THE ESSENTIAL CHARACTERISTICS OF SUCH LOANS SHOULD BE:

A. MEDIUM-TERM (5-10 YEARS)

B. UNTIED AS TO PROJECTS OR COUNTRY OF PROCUREMENT (JAPAN AND ITALY SAID THIS COULD BE TOO CONFINING)

C. NO ENCUMBRANCE OF PORTUGUESE RESERVES (E.G. THROUGH REQUIRING COLLATERAL)

D. LINKED TO THE PROGRESS OF GOP'S ECONOMIC PROGRAM AS WORKED OUT WITH THE IMF

6. IT WAS GENERALLY AGREED THAT THE DRAWDOWN OF FUNDS UNDER LIMITED OFFICIAL USE
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THESE LOANS WOULD BE CONDITIONED ON CONTINUED PORTUGUESE ADHERENCE TO AN ECONOMIC PROGRAM ON A SCHEDULE WORKED OUT IN COOPERATION WITH THE IMF. THE SCHEDULE INCLUDES THE INITIATION OF NEGOTIATIONS ON A SECOND TRANCHE PROGRAM IN THE FALL AND AGREEMENT BY THE END OF 1977.

7. DURING THE SESSION THE U.S. THE FRG AND NORWAY STATED THAT THEY WERE PREPARED TO PARTICIPATE IN A SET OF COORDINATED BALANCE OF PAYMENTS LOANS IF THESE REPRESENTED A SUBSTANTIAL AND BROADLY SHARED EFFORT. (THE U.S. REPORTED THAT WE PLAN A \$300 MILLION, TEN-YEAR LOAN; THE FRG INDICATED IT PLANS A SUBSTANTIAL LOAN AS WELL, WITHOUT INDICATING AMOUNT (FYI: AT THE LONDON SUMMIT THE FRG TOLD US THEY WILL PROVIDE \$200 MILLION. END FYI) WITH VARYING SHADES OF CONVICTION MOST OTHER COUNTRIES REPRESENTED INDICATED THEY BELIEVE THE SUGGESTED APPROACH SHOULD BE SUPPORTED AND THAT THE RESULTS OF THE MAY 16 MEETING WILL NOW PUT THEM IN A POSITION TO MAKE A CONCRETE RECOMMENDATION TO THEIR GOVERNMENTS. (ONLY FRANCE, BELGIUM AND IRELAND GAVE NO INDICATION OF SYMPATHETIC CONSIDERATION OF PARTICIPATION IN THE BALANCE OF PAYMENTS LOAN EFFORT.) IT WAS AGREED THAT BOTH GROUPS OF COUNTRIES WOULD BENEFIT FROM ONE MORE MEETING ON JUNE 22 OR 25, UNLESS THE DESIRED OVERALL RESULT FALLS INTO PLACE BEFORE THEN.

8. THE U.S. AGREED TO BE THE CENTRAL POINT FOR COLLATING INFORMATION ON THE PROGRESS OF COUNTRIES' CONSIDERATION OF PARTICIPATION AND TO KEEP OTHERS INFORMED.

ACTION REQUESTED:

FOR LONDON, STOCKHOLM, BERN, TOKYO, VIENNA, THE HAGUE, ROME, CARACAS, OTTAWA:

9. WITHIN THE NEXT WEEK EMBASSIES SHOULD FOLLOW-UP WITH HOST GOVERNMENT AT LEVEL YOU HAVE DEALT WITH PREVIOUSLY
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BOTH IN FINMIN AND FORMIN TO MAKE FOLLOWING POINTS:

A. U.S. IS GRATIFIED BY BROAD EXPRESSIONS OF SUPPORT FOR PORTUGAL AT MAY 16 MEETING.

B. WE BELIEVE TECHNICAL DISCUSSION AT THAT SESSION INDICATES WIDE ACCEPTANCE THAT BALANCE OF PAYMENTS SUPPORT IS NEEDED OVER NEXT 18 MONTHS.

C. WE HOPE THAT ALL GOVERNMENTS CONSIDERING PARTICIPATION CAN BE AS GENEROUS AS POSSIBLE IN ORDER TO DEMONSTRATE WIDEST POSSIBLE SUPPORT FOR PORTUGUESE DEMOCRATIC INSTITUTIONS AND TO PERMIT AN EQUITABLE SHARING OF THE BURDEN.

D. FYI: IF YOU HAVE PREVIOUSLY CITED NUMBERS TO YOUR HOST COUNTRY PLEASE USE THE FOLLOWING AS A ROUGH INDICATION OF WHAT WE COULD CONSIDER APPROPRIATE MINIMUM AMOUNTS FOR THE NEXT 12-18 MONTHS. WE DO NOT WANT TO SUGGEST ANY MAXIMUM REASONABLE AMOUNT OR SHARE. DO NOT CITE NUMBERS

FOR OTHER COUNTRIES AND DO NOT INDICATE ANY TOTAL FOR OUR SET OF MINIMUM SUGGESTIONS. EMPHASIZE THAT PREVIOUS NUMBERS CITED WERE FOR 12 MONTH PERIOD. NEW FIGURES REPRESENT LONGER TIME FRAME. FOR THE U.S. THE \$300 MILLION FIGURE IS WHAT WE HAVE REQUESTED FROM CONGRESS FOR FY 1978, LEAVING OPEN THE OPTION TO REQUEST ADDITIONAL FUNDS FOR FY 1979.

U.S. - \$300 MILLION
FRG - \$300 MILLION
JAPAN - \$ 75 MILLION
VENEZUELA - \$50-75 MILLION
U.K. - \$25-40 MILLION
FRANCE - \$20-30 MILLION
SWITZERLAND \$25-40 MILLION
NETHERLANDS \$20-30 MILLION
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CANADA - \$15-25 MILLION
NORWAY - \$15-20 MILLION
SWEDEN - \$15-20 MILLION
BELGIUM - \$15-20 MILLION
ITALY - \$10 MILLION
AUSTRIA - \$10 MILLION
END FYI:

E. THE U.S., AS INDICATED AT THE MAY 16 MEETING, IS WILLING TO INFORM OTHER PARTICIPANTS OF ANY PROGRESS IN

YOUR HOST COUNTRY THEY WISH TO PASS ON THROUGH US.

FOR BONN: PLANNED FRG LOAN OF \$200 MILLION IS ACCEPTABLE. SUGGEST YOU HAVE A GENERAL EXCHANGE OF FRG'S REACTIONS TO MAY 16 MEETING AND TRY TO CLARIFY WHETHER FRG WOULD BE WILLING TO INFORM OTHER PARTICIPANTS OF THE AMOUNT OF ITS PLANNED CONTRIBUTION WITHIN COMING WEEKS TO GIVE THE OVERALL EFFORT MORE PUSH.

FOR OSLO: YOU SHOULD EXPRESS APPRECIATION FOR STRONG SUPPORT PROVIDED AT MAY 16 MEETING. NORWEGIAN REPRESENTATIVE AT THAT MEETING REPORTED NORWAY'S CONTRIBUTION AS \$10 MILLION BUT WE BELIEVE THAT NORWAY WOULD BE WILLING TO INCREASE THIS AMOUNT.

FOR DUBLIN AND COPENHAGEN: SUGGEST LIGHT INDICATION THAT IT WOULD OBVIOUSLY BE WELCOME IF THESE GOVERNMENTS JOINED ITALIANS IN CONSIDERING SYMBOLIC PARTICIPATION THROUGH A SMALL LOAN, BUT WE ARE NOT PRESSING THIS.

FOR BRUSSELS: SUGGEST YOU MAKE A GENERAL REQUEST THAT HOST GOVERNMENT RECONSIDER ITS POSITION. FROM THE MAY 16 MEETING THEY SHOULD HAVE THE IMPRESSION THAT THIS EFFORT IS GOING TO ATTRACT BROAD PARTICIPATION. THE POLITICAL IMAGERY OF THIS COUNTRY STANDING ASIDE FROM A BROAD EFFORT TO SUSTAIN DEMOCRACY IN PORTUGAL IS SOMETHING THEY LIMITED OFFICIAL USE
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WILL HAVE TO CONSIDER. BUT WE WOULD FIND IT MOST UNFORTUNATE AND MISLEADING IF THEY COME TO A NEGATIVE DECISION ON PARTICIPATION.

FOR PARIS: LEAVE IT TO YOUR DISCRETION AS TO WHETHER AN EXCHANGE OF VIEWS WITH GOF ON RESULTS OF MAY 16 MEETING WOULD BE HELPFUL NOW. THERE IS PROBABLY LITTLE POINT IN YOUR PRESSING FRENCH FURTHER JUST NOW. UNDER SECRETARY SOLOMON PLANS TO MAKE PERSONAL APPROACH TO FRENCH OFFICIALS AT TIME OF CIEC MINISTERIAL NEXT WEEK.

FOR LISBON: PLEASE REVIEW THIS GENERAL APPROACH ON FOLLOW-UP TO THE MAY 16 MEETING WITH THE GOP AND MAKE SURE THAT LISBON IS ITSELF PURSUING THIS TASK AGGRESSIVELY THROUGH ITS OWN REPRESENTATIONS. IT IS IMPORTANT THAT ON THE QUESTION OF THE AMOUNTS OF COUNTRY CONTRIBUTIONS THAT WHATEVER THE GOP SAYS BE CONSISTENT WITH POINT 9.D ABOVE. CHRISTOPHER

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Message Attributes

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